HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Charlottetown CA

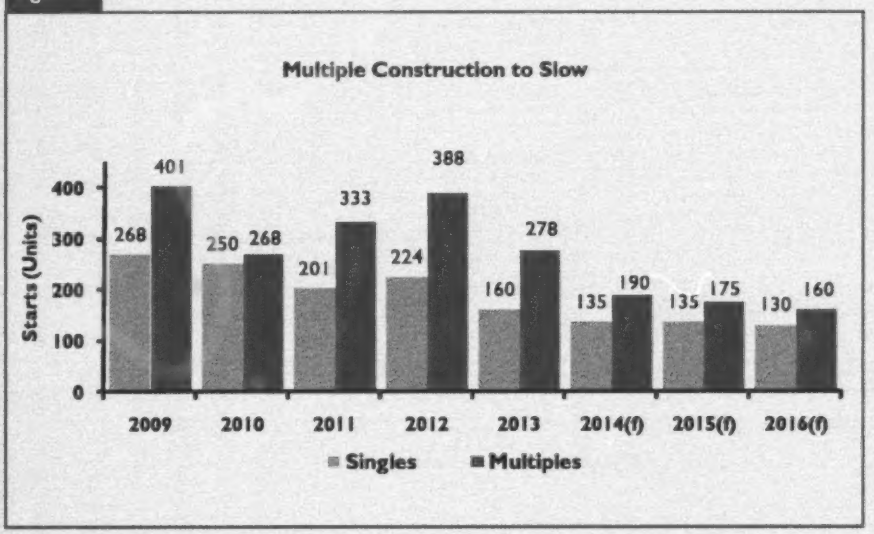
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2014

Highlights

- Apartment starts will decline over the forecast period
- Single-detached starts expected to trend downwards
- Slowing housing demand will result in reduced activity in the resale market
- Average prices report little change over the next three years

Figure 1



Source: CMHC

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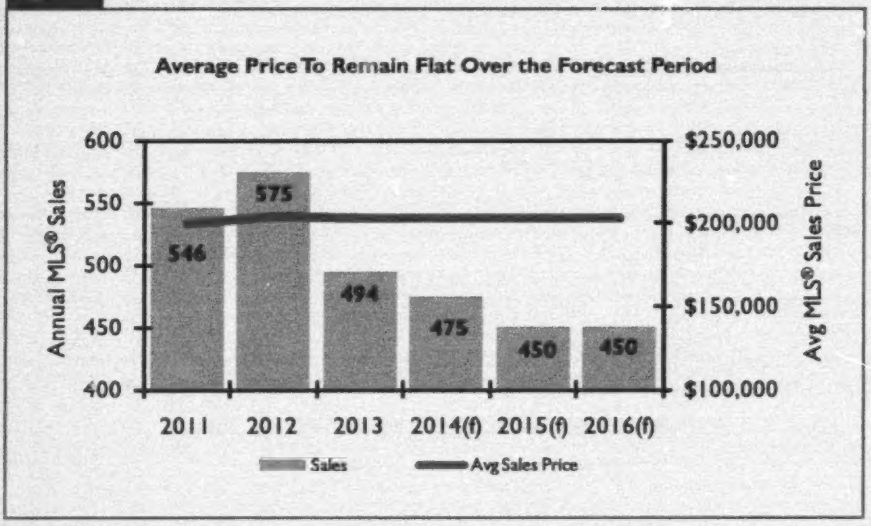
Figure 2



Source: CREA; Forecast: CMHC
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New Home Market: Total Starts Forecast to Decline

Following a decline in new home construction activity in 2013, expect total starts in the Charlottetown CA to post further declines over the forecast period. Both single-detached and multiple starts are expected to slow further over the forecast period.

In the last five years, multiple starts in Charlottetown recorded levels well above the current ten-year average of 240 units. In 2009, construction started on 401 multiple units. In following years, multiple starts totalled 268, 333, 388 and 278 units, respectively. The surge in starts over this period, most of which were rental apartments, was driven by a number of factors including low vacancy rates, higher levels of migration to the island and low borrowing costs.

As a result of the increase in starts, apartment completions in Charlottetown soon posted annual totals well above the long-term average. This newly elevated level of supply outpaced demand and resulted in steadily climbing vacancies, which reached a 25-year high of 7.9 per cent in 2013. Consequently, with ample supply in the market, expect new rental development to be limited over the forecast period. Multiple starts will total 190 units this year before declining to 175 starts in 2015. In 2016, expect multi-family starts to post a modest decline to 160 units.

The downward trend in housing starts is not limited to multiple units. In the single-detached segment of the market, single-family starts in Charlottetown declined nearly 30 per cent to 160 units in 2013. Weakness in singles continued into 2014 where starts have totalled 75 units after the second quarter compared to 131 in 2013.

The reduction in demand for new, single-detached homes is attributed to a variety of factors. First, changes to the Provincial Nominee Program resulted in slowing migratory patterns to the island, impacting population growth and in turn, housing demand. Weak migration is expected to continue in the coming years. Further, the average price of a new, single-detached home in Charlottetown posted an average annual increase of seven per cent over the last five years. This rapid growth dampened demand as prospective homebuyers shifted to the resale or rental markets. As a result of less demand, expect single-detached starts to total 135 units in 2014 and 2015, before posting a slight decline to 130 starts in 2016.

Resale Market: Expect Little Change in Prices

MLS® sales in the capital region averaged 572 units per year over the last ten years. Sales peaked in 2007 at 650 units before recording five successive years with sales between 500 and 600 units. However, in 2013, sales in Charlottetown posted a decline of 14 per cent to 494 units. Existing home sales in Charlottetown are forecast to decline in 2014 and 2015 to 475 and 450 sales, respectively. In 2016, sales will remain unchanged at 450 units.

The slowing pace is largely attributed to shifting migratory patterns. Net migration was strong during the 2008 to 2012 period when, on average, nearly 1,600 net new migrants moved to the island each year. However, migratory trends have since reversed; resulting in declining international migration and out migration to western Canada. As a result, net migration is no longer a significant contributor to overall housing demand, including the resale market. Expect migration patterns to add little to total demand over the forecast period and result in reduced sales for existing homes.

Along with the reduced pace of sales, the average price of an existing home

is expected to report little change over the forecast period. Elevated levels of new listings combined with slowing demand will provide potential home buyers with ample choice and limit price growth over the forecast period. Expect prices to average $203,000 this year; post a modest decline to $202,500 in 2015 and return to $203,000 in 2016.

Vacancy Rates to Remain Elevated

Following a period of increased apartment construction in Charlottetown, the level of annual apartment completions in the capital region accelerated. Since 2010, the Charlottetown market has added on average over 230 apartments per year, a tempo that is much quicker than the current, ten-year average of 130 units. This increase in the total rental stock combined with reduced demand for rental units pushed the vacancy rate to a 25-year high of 7.9 per cent in 2013.

Expect the vacancy rate to climb in 2014. Through the first eight months of this year, 109 apartment units completed and entered the market. As such, expect supply to outstrip demand this year and contribute to increasing rental vacancies to nine per cent. However, rental construction slowed significantly in the second half of 2013 and in the first half of 2014 and is expected to remain at a reduced rate over the forecast period. As a result of the slowing pace, expect the vacancy rate to fall but remain elevated at 8.5 per cent in both 2015 and 2016. The average rent for a two-bedroom apartment in Charlottetown is expected to increase at a similar rate to inflation over the forecast period. Rents are forecast to climb two per cent this year to $820 followed by a further 2.4 per cent in 2015. In 2016, expect the average two-bedroom rent in Charlottetown to reach $855.

Housing Demand to Soften

A number of factors influence demand for housing. Specifically, trends in population, migration, employment and interest rates impact housing demand. Between 2007 and 2012, and largely attributed to the Provincial Nominee Program, net migration to Prince Edward Island was strong. Many new islanders came from abroad and settled in Charlottetown, creating additional demand for housing. Further, over the same period, the pace of migration to Alberta slowed. As a result, the population in the Charlottetown CA climbed from 59,325 in 2006 to 64,487 in 2011. However, the end of the Provincial Nominee Program combined with an uptick in migrants moving west due to improved employment prospects resulted in a shift in migratory patterns, slower population growth and reduced housing demand. Net migration patterns are expected to remain slightly positive in coming years but not contribute significantly to housing demand as interprovincial migration will continue to see provincial declines including a loss of 815 in 2014, a loss of 400 in 2015 and a loss of 300 people in 2016.

On the employment front, growth in the capital region was strong in 2013 at over five per cent, with part-time employment growth outpacing full-time. Gains in total employment in Charlottetown were driven by a sharp increase in the trade sector, which grew nearly ten per cent to about 5,500 jobs. Further, a five per cent increase in the capital region's largest job sector, services, contributed to higher growth last year. Through the first eight months of 2014, full-time growth of three per cent more than offset declines in part-time employment and resulted in total employment growth of one per cent. The relatively strong job market in Charlottetown has attracted islanders from other parts of the province and provided support to housing demand. Expect Charlottetown employment growth to trend between zero and one per cent over the forecast period and incrementally influence housing demand.

Mortgage Rates are Expected to Remain Unchanged until the Latter Months of 2015

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain unchanged until the latter parts of 2015 and then begin to increase gradually. Gradual increases in mortgage rates from historic lows are not expected to significantly impact housing demand.

According to CMHC's base case scenario for 2014, CMHC expects the one-year mortgage rate to be in the 3.00 to 3.25 per cent range, while the five-year rate is forecast to be within the 5.00 to 5.50 per cent range. For 2015, the one-year mortgage rate is expected to be in the 3.20 to 4.00 per cent range, while the five-year rate is forecast to be within the 5.25 to 6.00 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.70 to 4.60 per cent range, while the five-year rate is forecast to be within the 5.55 to 6.45 per cent range.

Interest Rates

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Short term mortgage rates are expected to remain near historical low levels which will support housing demand.
Employment	Employment growth in Charlottetown was strong in 2013. Through the first eight months of 2014, employment continued to grow, albeit at a reduced pace. Increases in employment will support demand for all types of housing.
Income	Growth in average weekly earnings in Prince Edward Island in 2013 and year-to-date 2014 was near the rate of inflation, resulting in no real wage growth and thus did not have a significant positive impact on housing demand.
Net Migration	Out-migration throughout Prince Edward Island trended upward in 2013, exerting negative pressure on housing demand.
Natural Population Increase	Overall population growth in Prince Edward Island is minimal. An aging population is expected to impact the tenure of housing demand moving forward.
Resale Market	The existing homes market is expected to remain favourable to buyers over the forecast period as sales further slow and average days on market increase.
Other	Reduced public-sector capital spending combined with muted, large-scale private-sector investment will limit economic growth in 2014 and 2015.

Forecast Risks

This outlook is subject to some risk including:

- Increased inter-provincial out-migration throughout the province combined with declines in international immigration will limit demand over the forecast period.
- A stronger than expected U.S. economic recovery or stronger growth in emerging countries could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing market.
- Recent levels of apartment starts are expected to impact the vacancy rate further in 2015 and 2016. If the vacancy rate increases faster than expected, construction projects could be delayed.
- Elevated levels of household debt and house prices in some urban centres have made the country's economy more vulnerable to some economic shocks. If interest rates or unemployment were to increase sharply and significantly, some of the more heavily indebted households could be forced to liquidate some of their assets, including their homes. This could put downward pressure on house prices and, more generally, on housing market activity.

Forecast Summary Charlottetown CA Fall 2014									
	2011	2012	2013	2014(F)	% chg	2015(F)	% chg	2016(F)	% chg
New Home Market									
Starts:									
Single-Detached	201	224	160	135	-15.6	135	0.0	130	-3.7
Multiples	333	388	278	190	-31.7	175	-7.9	160	-8.6
Starts - Total	534	612	438	325	-25.8	310	-4.6	290	-6.5
Average Price ($):									
Single-Detached	239,840	272,844	286,344	288,000	0.6	288,000	0.0	290,000	0.7
Median Price ($):									
Single-Detached	240,000	250,000	269,450	272,000	0.9	272,000	0.0	277,400	2.0
New Housing Price Index (% chg.)	1.8	0.2	0.5	-0.3	-	0.5	-	0.5	-
Resale Market									
MLS® Sales	546	575	494	475	-3.8	450	-5.3	450	0.0
MLS® New Listings	875	924	954	1,033	8.3	1,085	5.0	1,050	-3.2
MLS® Average Price ($)	199,580	204,319	203,305	203,000	-0.2	202,500	-0.2	203,000	0.2
Rental Market									
October Vacancy Rate (%)	3.3	5.7	7.9	9.0	1.1	8.5	-0.5	8.5	0.0
Two-bedroom Average Rent (October) ($)	761	803	804	820	2.0	840	2.4	855	1.8
Economic Overview									
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.25	-	3.20 - 4.00	-	3.70 - 4.60	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-	5.55 - 6.45	-
Annual Employment Level	34,625	35,250	37,025	37,700	1.8	37,700	0.0	38,000	0.8
Employment Growth (%)	2.1	1.8	5.0	1.8	-	0.0	-	0.8	-
Unemployment Rate (%)	8.3	8.3	8.7	8.5	-	8.5	-	8.7	-
Net Migration (P.E.I.)	1,503	228	104	100	-3.8	100	0.0	500	**

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

** Percent change > 200%

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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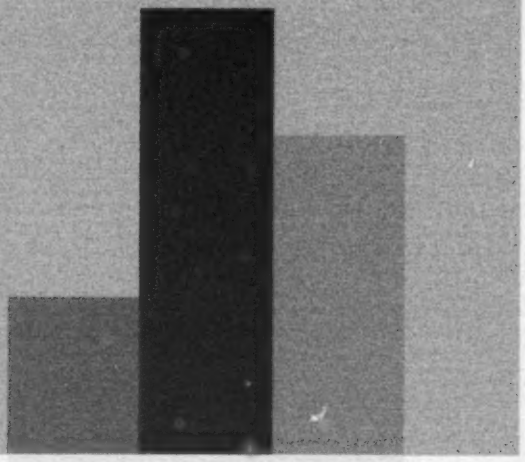

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